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SPRING 2024

# Riding the (Weight Loss) Wave

*By: Jonathan Koop, CFA*
*Sr. Portfolio Manager*

The past year has witnessed a spectacular rise in the stock prices of certain companies. Indianapolis-based pharmaceutical giant Eli Lilly (LLY) and microchip producer Nvidia (NVDA) have captured significant investor attention, boasting impressive gains of nearly 150% and 250%, respectively, over the past twelve months alone.

While the allure of chasing hot stocks can be strong, investors must navigate markets with a clear head and a well-defined strategy. Making emotional decisions based on the fear of missing out (FOMO) or the illusion that the momentum of perpetual bull markets will always continue, mystery of missing out (MOMO) can be detrimental. Before you succumb to those potential pitfalls, it's important to take a deeper look at the factors shaping Eli Lilly's future.

**FOMO and MOMO:**
**Don't Let Emotions Cloud Your Judgment**

The fear of missing out (FOMO) is the anxiety and regret associated with missing out on potential gains. It can lead investors to make impulsive decisions based on emotion and can be a challenging motivator to overcome, especially in a bull market when you feel the buzz from others around you.

## In This Issue



Similarly, the recent surge in LLY stock price may make you think the upward trend will continue indefinitely. This is the allure of MOMO, where past performance is mistakenly seen as a guarantee of future success. However, market corrections are inevitable, and blindly assuming a never-ending upward trajectory can lead to significant losses. Prudent investing must consider the stock's underlying fundamentals and the company's future prospects.

**Mounjaro's Success Story:** The primary driver of Eli Lilly's performance has been the phenomenal success of its new drug, Mounjaro. Originally developed as a treatment for type-2 diabetes, it was discovered that Mounjaro also had the unexpected side effects of weight loss and addiction cessation. It was recently approved by the FDA as a weight-loss treatment (and subsequently rebranded as Zepbound), which fueled a tidal wave of investor enthusiasm into the realm of euphoria.

**Medicare Coverage - A Double-Edged Sword:** Zepbound is an extremely expensive medication (the estimated cost of treatment is over $15,000 per year), which is great for the company's revenue. However, its high cost could limit consumer uptake. Additionally, whether Medicare will cover Zepbound as a weight-loss treatment remains a key question.

While wider accessibility could boost patient numbers and revenue, Medicare coverage would likely come with lower negotiated prices and decreased profit margins. Depending on the breadth of coverage (it is estimated that over 41% of Americans over 60 years old are obese), if approved for Medicare at its current price, the costs associated with covering Zepbound alone would take up a substantial portion of Medicare's budget – certainly an unrealistic outcome considering Medicare is already a hot topic for the U.S.'s current debt situation.

Ultimately, the revenue that Eli Lilly will get from these price negotiations is unknown, but the stock continues to trade with the most favorable outcome priced in.

**Beyond Mounjaro:** Eli Lilly's future hinges not just on Mounjaro/Zepbound's success but also on its ability to develop and commercialize other promising drugs in its pipeline. Investors should monitor the progress of these potential growth drivers as well.

**Summary**

Eli Lilly's future holds immense potential, but a balanced perspective is crucial. While Mounjaro/Zepbound's success and potential Medicare coverage are exciting developments, the impact of price negotiations, administrative hurdles, and overall effectiveness requires careful consideration. Maintaining a diversified product portfolio and a strong commitment to R&D will also be essential for Lilly's long-term success. Investors should carefully analyze these factors to avoid the FOMO investment pitfalls.

*Contact Jonathan if you have questions or want additional information regarding this topic.*

# BLT Corner

## Things Are Looking Up (Glasses Recommended)

As we write this newsletter, it is early March, the daffodils are sprouting, and the talk of the town is the Solar Eclipse. Both of these phenomena will be short-lived. One will recur next year and not return until 2044 or 2045. Nobody is worried about missing the Daffodils, but if you miss the eclipse in the U.S., you'll have to wait at least twenty years before the next one happens nearby.

The FOMO feeling is strong with the Eclipse. In our feature article, Jonathan Koop talks about the Fear of Missing Out (FOMO) and not letting it control your judgment.

Some of us started planning for the Eclipse in 2023 by ordering special glasses, and some school systems even shifted their Spring Breaks to make sure students had the day of the Eclipse off from school! For some people, planning ahead doesn't offer enough rewards today, but Kate Arndt talks about the importance of Delayed Gratification and saving today for future rewards in your GenNext article.

Sarah Mahaffa, a Purdue graduate, is either on cloud nine or suffering a total eclipse of the heart today, depending on how the Boilers did in the tournament. That is why she wrote her article before the tourney started. The article discusses the Kiddie Tax and what to do with a child's unearned income and earned income.

Our Ask Bedel questions relate to the surge in insurance premiums for both home and auto. Recent premium increases have eclipsed previous rates and are overshadowing any efforts by state regulators to slow the increases.

Inside Bedel Financial, we have migrated or will be migrating to three different software applications that are helping us but probably won't be noticed by our clients. Ironically, one of them is called Eclipse. It helps us with asset allocations and portfolio changes.

Finally, we are proud and blessed to be in our 36th year serving our clients. Elaine Bedel started Bedel Financial near the end of 1988, shortly before a Total Eclipse occurred in the Aleutian Islands of Alaska in 1990. Now, unless you were a fisherman, you probably missed that one, but we are thankful that you did not miss us. We appreciate you and are lucky to be able to continue to do what we do for you. Thanks for the last 35 years!

PS: If you don't want to wait until 2045, you should start making reservations in Montana or North Dakota for 2044. Otherwise, a wide viewing band will stretch from Northern California to Southeast Florida in 2045. The Bahamas, Disney World, and the Rocky Mountain National Park should be prime locations. Talk to your travel agent today!

*The Bedel Leadership Team*



# Generation NeXt

## Instant Gratification? Not So Fast

*By: Kate Arndt, CFP®*
*Wealth Advisor*

In a world of text message conversations, Amazon Prime delivery and social media likes, it's easy to understand how society has become accustomed to instant gratification. It can make the long, steady process of growing wealth seem boring or unattainable. For most people, the only way to build wealth is by adopting a delayed gratification mindset with money.

### Build Savings Muscles

It's easy to opt for instant gratification when it comes to financial decisions. It feels good to spend money. However, you don't experience the same reaction when you open the Amazon package or wear the new shoes compared to when you invest money in a Roth IRA. Building wealth is much like building muscle. It takes a series of repeated behaviors to get the desired results.

Depending on who you ask, the rule of thumb is to save anywhere between 10% and 20% of income for retirement. The specific percentage required for each person will differ based on their time horizon and goals. The more that you save early on, the better off you will be in the future.

The sooner you commit to building that saving muscle, the more options you will have later on.

Bedel's favorite rule of thumb for Generation NeXt clients is to save early and often, and there's good reason for it. Assuming a 7% compound annual return, a 25-year-old must save $762 per month to accumulate $2,000,000 by age 65. Someone who starts their journey 15 years later, at age 40, must save $2,496 per month to reach the same outcome. It's difficult to go from saving nothing to saving thousands a month.

### Standard of Living

It's easier to build strong savings habits at the onset of adulthood because you're establishing your standard of living for the first time. Having a "save first" mentality allows you to back into how much you can afford when it comes to big monthly payments like housing and auto loans.

On the flip side, it's difficult to scale back an already established standard of living to catch up on retirement contributions. Think back to the topic of gratification. Who wants to give up their golf membership to stay at home and save money?

Often, people push off changing their lifestyle to a future date and rationalize it by mentally allocating future raises, bonuses, or decreases in expenses. It's wishful thinking, not action. If change is to be made, it has to be done in the present. Review the opportunity costs of unnecessary expenses and cut where needed. Re-allocate those dollars to automatic investments, like increases to 401k contributions or recurring transfers to an IRA/Roth IRA or brokerage.

### Conclusion

Many people fail at fitness and financial goals. Don't be that person! Take action today and see your "trainer" if you need professional help.

*Contact Kate if you have questions or want additional informat regarding this topic.*

*Digital Resource*

**PROTECTING YOUR PERSONAL INFORMATION**

As identity theft becomes more prevalent, we have provided a new resource to help you take steps to protect your information.

Go to: ***BedelFinancial.com/protect***

# Industry News

## Understanding the Kiddie Tax

*By: Sarah Mahaffa, CFP®*
*Senior Wealth Advisor*

For parents who already have custodial accounts for their kids or anticipate having an investment account in the future, it's important to understand the tax impact to optimize your family's tax situation.

**What is the Kiddie Tax?**

The Kiddie Tax applies to children under 19 years old and full-time students under 24 who don't support themselves financially. The tax is assessed on unearned income – such as interest, dividends, and capital gains- received by children who meet previously noted age requirements. Did your daughter invest in a mutual fund this year? Did her grandparents gift her some stock? Income generated by those investments will be subject to the Kiddie Tax.

**How Does the Kiddie Tax Work?**

Under the 2023 Kiddie Tax rules, the first $1,250 of a child's unearned income is tax-free, the next $1,250 is taxed at the child's income tax rate, and any unearned income above $2,500 is subject to the Kiddie Tax. The income above $2,500 is taxed at the parent's tax rate, generally higher than the child's rate. The exempted amounts generally increase over time due to inflation. In 2024, the kiddie tax threshold will increase to $2,600.

**Implications for Parents:**

Parents should carefully consider the implications of the Kiddie Tax when planning their family's finances and investments. Strategies to minimize the impact of the Kiddie Tax may include:

1. Choose tax-efficient investment options: Parents can opt for investments that generate minimal unearned income, such as growth stocks that don't pay dividends or exchange-traded funds that don't generate capital gains. Investment selection is key in managing unearned income.
2. Utilize tax-loss harvesting: When an investment has lost value, the position can be sold, and the loss can be used to offset future gains.
3. Contribute to tax-advantaged accounts: Funding tax-advantaged accounts such as 529 plans can help reduce the impact of the Kiddie Tax, as investment earnings within these accounts grow tax-deferred and potentially tax-free if used for qualified education expenses. If the child has earned income, they may be eligible to contribute to a Roth IRA for a lifetime tax-free growth.
4. Seek professional advice: Tax planning can be complex, especially concerning the Kiddie Tax. Consulting with a qualified tax advisor or financial planner can help parents navigate the intricacies of tax law and develop strategies to optimize their family's tax situation.

**Tax Filing**

Depending on the broader tax situation, the Kiddie Tax can be reported on either the child's tax return or the parents. Generally, if your child has unearned income greater than $1,250 or earned income over $13,850, they must file a separate tax return. However, this can get complicated, so it's best to consult a tax advisor to determine where to report the income best.

**Conclusion**

By understanding how the Kiddie Tax works and implementing appropriate tax planning strategies, parents can minimize their family's tax liability while ensuring compliance with IRS regulations. Consulting with a tax professional or financial advisor is recommended to develop a personalized tax strategy

*Contact Sarah if you have questions or want additional information regarding this topic.*

# Ask Bedel

## Why are Car Insurance Premiums Increasing?

*By: Olivia Maynes, CFP®*
*Financial Planning Coordinator*

**QUESTION:** How much have home and auto insurance premiums increased?

**ANSWER:** The US has seen back-to-back years of substantial premium increases in both the homeowner and auto insurance industries. According to S&P Global Market Intelligence, homeowner premiums have increased by an average of 18.2% over the past two years, while auto premiums saw increases of 26.9%.

**QUESTION:** How does Indiana compare to these national averages?

**ANSWER:** Over the past two years, Indiana has responded in a similar vein, with homeowner premiums increasing by 18.3% and auto premiums by 29.2%.

**QUESTION:** What’s the cause of these increased premiums?

**ANSWER:** TThere are a few reasons which come with quite the ripple effect. Perhaps the most obvious is the influx of natural disasters over the past few years. This includes the Florida hurricanes and California wildfires that make national news. According to the NCEI, almost twenty severe storms across the US in 2023 cost billions of dollars.

Climate change and extreme weather make it more difficult for insurers to predict and measure risks, causing them to fall short on these significant payout claims. To make matters worse, insurance companies face premium increases from their reinsurance providers.

The inflating costs of repairing and replacing cars and homes only skyrocketed these already-high payout claims.

In response, home and auto insurance companies demand higher premiums to protect themselves.

**QUESTION:** Are there any signs of premium increases slowing?

**ANSWER:** State regulators find themselves in a pickle when it comes to working with these home and auto insurance companies. While states have some say over the price hikes, being too aggressive could force insurance companies to pull out of a state completely.

Insurance companies are still scrambling to deal with their past losses and mitigate against future losses, making it seem likely that premiums will only continue to increase.

**QUESTION:** Are there ways to save?

**ANSWER:** The first step is to shop around and see if you can find the same level of coverage for a lower premium. In addition, look for home and auto bundling discounts or safe driving programs. If these options prove futile, see what your premium would be if you raised your deductible. However, be careful. Consider your financial situation and capacity for risk before making any changes to your coverage.

*Contact the Olivia if you have questions or want additional information regarding this topic.*

***Have a Question For Us?***
**Submit it to bedel@bedelfinancial.com**

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****ADV Update/Material Changes****

Since our last Annual ADV update dated March 31, 2023 we have made the following material change:

Item 8 has been updated to include a comprehensive list of material risk descriptions.

If you'd like a copy of the full ADV at no cost please call or email bedel@bedelfinancial.com or visit our website at www.bedelfinancial.com/compliance.



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